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E.O. 12958: N/A
TAGS: ASEC ECON ETRD OTRA XL EFIN CS
SUBJECT: COSTA RICA INPUT - USITC BIENNIAL CARIBBEAN BASIN
INVESTMENT SURVEY

REF: SECSTATE 065843

¶1. (U) SUMMARY: The Caribbean Basin Initiative (CBI/CBERA/CBTPA) has played a key role in the growth of the Costa Rican economy over the last 23 years, fueling Foreign Direct Investment (FDI), which has expanded the economy and diversified export opportunities. In the past seven years, according to Government of Costa Rica statistics (from http://www.comex.go.cr/estadisticas/exportaci ones/ Exportaciones 20Totales 20x 20destino 202006.pdf) total exports have increased 39.0 percent, from $5.897 billion in 2000, to $8.198 billion in 2006. According to the same source, exports to the U.S., most of which enter under CBI/CBERA/CBTPA benefits, have increased 3.4 percent, from $3.056 billion in 2000, to $3.161 billion in 2006. According to U.S. National Trade Data (from http://tse.export.gov/) Costa Rican exports to the U.S. increased 8.4 percent from $3.547 billion in 2000 to $3.844 billion in 2006. Costa Rica now has the opportunity to cement its trade relationship with the U.S. by ratifying and implementing CAFTA. However, it is uncertain whether the country will do so before the March 1, 2008 deadline. END SUMMARY.

FOREIGN DIRECT INVESTMENT OVERVIEW

¶2. (U) Costa Rican FDI continues to increase each year. The latest figures show that FDI totaled $1.410 billion in 2006. The U.S. continues to make up the dominate share of FDI in Costa Rica, accounting for 80.4% of all FDI, with real estate excluded. Real estate now constitutes a significant portion of Costa Rica's reported FDI, which was not the case in previous years. The industrial sector represents 40.4 percent of total FDI (excluding real estate) in 2006, the financial services sector followed at 30.3 percent, and the tourism sector was a distant third at 13.6 percent. In 2006 the Free Zones (FZ) remained the largest single recipient of FDI. As of June 2007, there were 212 companies operating within the FZ, the vast majority U.S.-owned. Fifty-nine percent of all Costa Rican exports to the U.S. are produced in FZ. The ratio of FDI (ex. real estate) to GDP averaged approximately 3.6 percent between 2001 and 2006.

¶3. (U) Industrial activities have been the most significant in attracting FDI since 1997, with the tourism and services industries typically ranking a distant second and third, respectively. The sectors that averaged the largest share of FDI (ex. real estate) during the period between 1999 and 2006 were the industrial sector (57.9 percent) and the tourism sector (12.74 percent). After several years of steady decline, in 2006 investment in the tourism

sector had a record year for FDI inflows.

¶4. (U) TABLE ONE

FOREIGN DIRECT INVESTMENT BY SECTOR

(in millions of dollars, current)

	2001	2002	2003	2004	2005	2006
Industry	231.4	482.7	386.8	456.0	344.9	428.7
Real Estate	0.0	21.0	31.0	178.4	234.6	350.0
Financial	43.1	17.2	2.2	22.6	40.9	321.6
Tourism	111.5	76.0	88.3	41.4	53.5	144.1
Services	57.4	52.8	83.2	17.2	73.3	60.1
Commercial	8.3	15.2	6.0	14.6	47.6	45.4
Agriculture	1.0	-8.6	-36.3	14.0	37.1	37.6
Agro-industry	5.2	2.8	8.4	7.6	29.6	9.4
Other	2.4	.3	5.6	15.9	-0.5	13.9
TOTAL	460.4	659.4	575.1	793.8	861.0	1410.8
Ex Real Est.	460.4	638.4	544.1	615 4	626 4	1060.8

(Source: BCCR, FDI in Costa Rica 2005-2006 July, 2006)

¶5. (U) It appears that in 2004 and 2005 the U.S. has significantly increased its FDI flows to Costa Rica relative to the rest of the world. In 2005 alone 80.4 percent of FDI flows to Costa Rica (excluding real estate) originated from the U.S. During the last six years, Canada, Mexico, The Netherlands, Panama, Colombia, Switzerland, Venezuela, Argentina and four other Central American countries (Guatemala, El Salvador, Honduras, and Nicaragua) have also continued to function as important sources of FDI. (See Table Two for details.) Reinvestment by foreign companies already operating in Costa Rica represents almost one-half of total FDI.

¶6. (U) TABLE TWO

FOREIGN DIRECT INVESTMENT
BY COUNTRY OF ORIGIN

(Selected countries, not comprehensive, excluding real estate investment, in millions of dollars, current)

	2000	2001	2002	2003	2004	2005
United States	279.5	260.3	329.6	357.7	446.3	524.9
Mexico	29.3	30.7	29.6	38.0	28.5	29.9
Canada	-2.7	36.0	-9.6	17.5	3.7	26.5
El Salvador	15.1	16.4	23.4	25.4	12.8	19.0
Netherlands	0.0	2.5	229.2	29.7	17.5	18.7
Panama	26.2	61.2	30.6	-1.1	17.3	10.5
Spain	21.8	25.7	0.1	7.5	3.0	10.2
Italy	6.6	5.4	5.8	4.7	4.1	8.7
Venezuela	0.5	1.5	1.9	17.2	8.3	5.0
Guatemala	2.4	4.6	1.8	0.0	0.1	4.9
Colombia	1.0	6.4	3.5	-0.2	16.4	4.8
Nicaragua	1.8	5.5	2.5	1.8	1.6	1.8
Argentina	0.0	0.0	0.0	0.8	7.9	0.6
Peru	0.0	0.0	0.0	0.0	3.0	0.6
Taiwn	2.9	0.6	0.0	0.1	-0.2	0.2
Honduras	0.0	0.0	0.0	0.0	1.7	-1.3
Germany	10.3	3.3	1.3	57.8	9.7	-2.7
Switzerland	2.2	-0.6	5.0	8.4	22.2	-8.2
Central America*	36.0	19.4	26.4	27.7	27.2	24.4
TOTAL FDI	408.6	458.5	658.4	574.2	617.3	653.2
U.S. Share FDI	68.4%	56.8%	50.1%	62.3%	72.3%	80.4%

* Central American FDI is the sum of the four countries (Guatemala, El Salvador, Honduras, and Nicaragua)
(Source: BCCR, FDI in Costa Rica 1997-2005, July 2006)

¶7. (U) According to many Free Zone U.S. operators, an end of CBI benefits along with the proposed 15 percent income tax included in

the pending tax reform bill would force them to leave Costa Rica. The failure to ratify and implement CAFTA to date is already having negative effects in Costa Rica, particularly in the textile sector. With CBTPA set to expire on September 30, 2008 and uncertainty over Costa Rica's participation in CAFTA, textile shops have already begun searching for more stable investment environments where there is no question that access to the U.S. will continue unabated.

LARGEST U.S. EXPORTERS IN COSTA RICA

¶8. (U) TABLE THREE

Top Ten US Firms in Costa Rica
based on Exports to US

Rank	Company	Exports ($ mn)
1	Intel	1,832.1
2	Hospira (formerly Abbot Laboratorios)	315.9
3	Del Monte	163.9
4	Baxter Medical Products	149.5
5	Coca Cola	132.7
6	Conducen Wire & Cable	125.2
7	Remec Inc.	106.4
8	Trimpot Electronics	104.0
9	Scott Paper Company	101.3
10	Atlas Industrial	92.8
Total Exports		3,123.8

Other US Firms with Significant
Investment in Costa Rica

Babyliss (Costa Rica)
Boston Scientific
Bridgestone Firestone

C&K Components
Comercializadora Bananeros de Costa Rica
Confecciones Bor Kar
Confecciones H.D. Lee
Confecciones V.F.
Diversificados de Costa Rica (Dicor)
Frutas Tropicales Venecia
Gretex Manufacturera
Inamed Costa Rica
Melones del Pacifico
Mundial Comercializadora Internacional
Panduit de Costa Rica
Rawlings de Costa Rica
Compaa Bananera Atlntica
Teradyne Costa Rica
Ticofruit

(Source: Procomer)

IF COSTA RICA IS OUT OF CAFTA, WHAT NEXT?

¶9. (U) Costa Rica currently faces an uncertain future regarding unilateral trade preferences granted under CBI/CBTPA. The country is in the throes of a national debate about the Central American Free Trade Agreement that will culminate in a referendum tentatively scheduled for October 7 to ratify Costa Rica's participation in CAFTA. Assuming the referendum results in approval of CAFTA, Costa Rica will have less than five months to pass the implementing legislation that must accompany the ratification to bring the country into compliance with its treaty obligations before a March 1, 2008 deadline. If this occurs, CAFTA will replace and expand the benefits of CBI, accelerate exports between the two countries, and attract even more foreign direct investment to Costa Rica.

COMMENT

¶10. (SBU) There are three things that have to happen between now and CAFTA's March 1, 2008 deadline for Entry Into Force: 1) a plurality of participating Costa Rican voters must approve CAFTA in the referendum scheduled for October 7; 2) this first-ever referendum must garner a minimum percentage of the eligible electorate (probably 40%) to be binding; and 3) the Costa Rican legislature (or Asamblea) must pass all legislation necessary to implement the agreement. We think the first condition is likely to be met, and the second condition probably will be met. The third condition remains extremely challenging, however, and will require more political discipline and stronger leadership in the Asamblea than the Arias administration and its pro-CAFTA coalition partners have exhibited to date.

¶11. (SBU) If Costa Rica does not implement CAFTA before March 1, 2008 and no new legislation is passed to extend CBTPA beyond its September 30, 2008 expiration, Costa Rica will lose, at a minimum, preferential access for what in 2006 amounted to $350 million in exports to the U.S. Additionally, we believe that if Costa Rica rejects CAFTA, it would be difficult to certify that Costa Rica was in compliance with several of the conditions of CBI. These include: that it was providing equitable and reasonable access to its markets, that the trade policies of Costa Rica were contributing to the revitalization of the region, and that Costa Rica was undertaking self-help measures to promote its own economic development. If the referendum rejects CAFTA or the GOCR fails to implement by March 1, 2008, we recommend a mid-term review of Costa Rica's CBI eligibility.
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